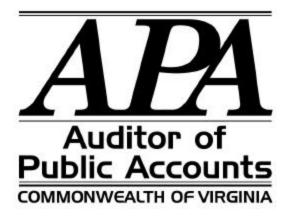
STATE CORPORATION COMMISSION RICHMOND, VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2001



AUDIT SUMMARY

Our audit of the State Corporation Commission for the year ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls, and
- no instances of noncompliance that are required to be reported.

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October 1, 2001

The Honorable James S. Gilmore, III Governor of Virginia State Capitol Richmond, Virginia The Honorable Vincent F. Callahan, Jr. Chairman, Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **State Corporation Commission** for the year ended June 30, 2001. We conducted our audit in accordance with <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts Expenditures Fixed Assets Accounts Receivable

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 17, 2001.

AUDITOR OF PUBLIC ACCOUNTS

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The State Corporation Commission is an independent agency directed by three commissioners; each elected by the General Assembly for six-year terms. Each commissioner administers specific divisions and annually the commissioners rotate the chairmanship. The Commission has both regulatory and non-regulatory divisions. The regulatory divisions monitor such industries as utilities, railroads, banks, securities, retail franchising, insurance, and corporations. The non-regulatory divisions provide administrative and legal support. The Commission funds its operations from certain regulatory assessments and fees set by statute. The Commission collects revenues for the General Fund, other state special funds, localities, and other entities. The Commission collected a total of \$362,807,733 in General Fund revenue for fiscal year 2001.

The regulatory and non-regulatory divisions are shown below.

REGULATORY DIVISIONS

Insurance Securities and Retail Franchising Financial Institutions

Public Service Taxation
Public Utility Accounting
Communications
Energy Regulation
Economics and Finance
Railroad Regulation

Clerk of the Commission

NON-REGULATORY DIVISIONS

Commissioners' Offices

General Counsel Hearing Examiners

Commission Comptroller

Information Resources

Human Resources

Information Technology

REGULATORY DIVISIONS

Bureau of Insurance

The Bureau of Insurance regulates approximately 2,500 insurance companies and 107,800 agents authorized to operate in Virginia. The Bureau examines the financial affairs of each of the domestic (Virginia-based) insurance companies at least once every five years and requires annual statements from domestic, foreign (companies based outside of Virginia) and alien (companies based outside of the United States) insurance companies doing business in Virginia. The Bureau also assists the public in resolving disputes with insurance companies and agents.

The Bureau of Insurance collects a Gross Premium Tax from insurance companies, which totaled \$268,388,145 in General Fund revenue in fiscal year 2001. The Bureau also collects an assessment from Fire and Casualty Insurance companies, which it transfers to the Department of Fire Programs. In fiscal year 2001, the Bureau transferred \$15,108,352.

The Bureau also collects special assessments for the Virginia Department of State Police to investigate insurance fraud. Each licensed insurer doing business in the Commonwealth, by writing any type of property and casualty insurance, except title insurance, pays a special assessment fee equal to a percentage of its direct gross premium income during the preceding calendar year. The Bureau can impose a late payment penalty of ten percent of the assessment and retains a portion of the special assessment to cover its administrative expenses. The Bureau transferred \$3,309,058 to the State Police by fiscal year end.

Division of Securities and Retail Franchising

The Division of Securities and Retail Franchising regulates security brokers and investment advisors in Virginia. The Division also registers franchises and trademarks in Virginia and investigates any reports of securities or franchising law violations or misconduct. The Division of Securities and Retail Franchising collected \$8,707,320 in special revenue from broker/agent and franchise registration fees during fiscal year 2001.

Bureau of Financial Institutions

The Bureau of Financial Institutions regulates and examines state-chartered banks, savings and loans, and credit unions. The Bureau also licenses and examines mortgage lenders and brokers, and licenses and regulates money order sellers, consumer finance companies, and debt counseling services.

The Bureau collects revenue from these entities for application fees, license fees, annual assessment fees, examination fees, and investigation fees. In fiscal year 2001, the Bureau collected \$9,236,362 in special revenue.

Division of Public Service Taxation

The Division of Public Service Taxation collects state taxes and assesses the real and tangible personal property of public service companies (e.g., electric, gas, water and telecommunications companies.) On January 1, 2001 taxes on electricity and natural gas changed from a gross receipts tax to a combined net corporate income tax on utility companies and a consumption tax on consumers.

In fiscal year 2001, the Division of Public Service Taxation collected \$87,829,438 in General Funds and \$36,793,664 in special revenue.

Division of Public Utility Accounting

The Division of Public Utility Accounting provides the Commission with accounting and financial information. The Commission uses this information when considering utility cases involving rates and services; affiliate transactions, mergers and acquisitions; certificates of public convenience and necessity; alternative regulatory plans; and the restructuring of utility markets.

Division of Communications

The Division of Communications regulates Virginia's telecommunications industry (other than cellular and wireless, which are federally regulated.) This Division reviews rates and costs, evaluates telephone companies' performance, investigates consumer complaints regarding communications service, and oversees the implementation of telecommunications market competition.

Division of Energy Regulation

The Division of Energy Regulation regulates Virginia's investor-owned water and sewer, electric, and natural gas utilities and member-owned electric cooperatives. This Division's responsibilities include reviewing rate applications filed by investor-owned utilities and member-owned cooperatives, monitoring utility construction projects, inspecting gas and hazardous liquid pipelines safety, and responding to consumer complaints regarding electric, gas, and water and sewer utilities under the Commission's jurisdiction.

Division of Economics and Finance

The Division of Economics and Finance advises the Commission on economic and finance issues related to public utilities, conducts research, and develops special studies and forecasts.

Division of Railroad Regulation

The Division of Railroad Regulation works with the Federal Railroad Administration to ensure safe operations of railroads within the Commonwealth. The Division investigates citizen complaints regarding the blocking of rail crossings, conducts accident investigations, inspects railroad tracks and bridges to promote safe movement of freight and passengers throughout the state, and inspects rail cars and locomotives to ensure compliance with federal standards.

The Clerk of the Commission

The Clerk is the Commission's official custodian of judicial and administrative records. The Clerk's Office also serves as the central filing office for Uniform Commercial Code financing statements and federal tax liens as well as for thousands of corporations, partnerships, and limited liability companies doing business in Virginia. The Clerk's Office collects various fees from corporations, partnerships, and limited liability companies that register with the Commission. In fiscal year 2001, the Clerk's Office collected \$6,590,150 in General Fund revenue and \$20,048,450 in special revenue.

NON-REGULATORY DIVISIONS

The non-regulatory divisions provide the Commission with administrative and legal support.

STATE CORPORATION COMMISSION Richmond, Virginia

COMMISSION OFFICIALS

Clinton Miller, Chairman Hullihen Williams Moore Theodore V. Morrison, Jr.